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STATEMENT OF DAVID GRACE
VICE PRESIDENT OF THE WORLD COUNCIL OF CREDIT UNIONS
ON BEHALF OF
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
AND
WORLD COUNCIL OF CREDIT UNIONS (WOCCU)
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE
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"Remittances: Access, Transparency and Market Efficiency – A Progress Report"

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Chairman Gutierrez, Ranking Member Paul, and members of the Subcommittee, I am David Grace, Vice President of the World Council of Credit Unions in Madison, Wisconsin. I also serve on the Board of Directors of Latino Community Credit Union, the nation's fastest growing credit union. I appreciate the opportunity to appear before the Subcommittee today on behalf of the Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU) to address the issue of remittances. CUNA is the largest credit union advocacy organization, representing over 90 percent of our nation's 8,500 federal and state chartered credit unions and their 89 million members.

The World Council of Credit Unions is the global trade association and development agency for the international credit union movement and represents over 42,000 credit unions in 92 countries.

Beginning in 1997, WOCCU started working with its members on the sending and receiving end of remittances to facilitate money transfers among credit unions. In 2001 the project became formalized and WOCCU's IRnet service was launched in partnership with Vigo Remittance. Today we work with MoneyGram and Vigo Remittance to facilitate transactions through approximately 300 credit union locations throughout the United States and 900 rural and urban credit union locations in Mexico, Honduras, El Salvador, Guatemala, Bolivia, Ecuador, Jamaica, Nicaragua and Kenya as distributors of remittances. We believe that these activities and the $1.5 billion that has been transmitted through IR*net* program since its inception makes it one of, if not the largest, remittance program of any microfinance network. During this timeframe we have helped bring attention to the issue of remittances, provided additional alternatives for consumers and lowered the fees that credit unions have charged for such services.

I would like to address three areas in my remarks this morning: 1) the role U.S. and foreign credit unions play in facilitating access to financial services for working individuals, 2) how remittance costs can further be reduced; and 3) the role that the multi-lateral banks and the United States Agency for International Development (USAID) can play in achieving these objectives.

1. Role of Credit Unions in Remittances and the Link to Access to Financial Services

Credit unions around the globe serve over 157 million working individuals. As member owned financial cooperatives, credit unions are by their nature consumer-oriented. As such, it should not be surprising that CUNA and WOCCU support transparency of remittance transactions. Since becoming engaged in this service, we have ensured that our service providers meet the highest standards for transparency and with the exception of promising delivery times, credit unions have complied for years with the provisions of H.R. 928, the International Remittance Consumer Protection Act of 2005 introduced last Congress by Chairman Gutierrez.

Earlier this month, the WOCCU, the Inter-American Dialogue and others issued a policy guidance report titled "*Making the Most of Family Remittances*". This report demonstrates that between 10% to 50% of the remittance receivers in credit unions in Central America are opening new accounts – rates that are much higher than in commercial banks.

WOCCU's research, which has been supported by USAID, shows that without remittances, 62% of remittance receivers in Guatemalan credit unions would have very little income and 40% would be living on less than $1 per day. As a result of receiving remittances through a credit union, over 60% of these consumers had incomes above the gross national income per capita in Guatemala of $2,400.

Our most recent work on the ground in rural Guatemala with USAID indicates that remittance receivers in the heaviest migration zones have unmet needs for additional financial services. Credit unions' experimentation with remittance linked products shows that consumers are interested in remittance backed home loans and micro-enterprise loans and to a lesser extent, direct deposit or remittances.

In part, due to enabling legislation passed last year in Congress, of which Chairman Gutierrez was an unwavering champion, for the first time U.S. credit unions are able to compete with the corner grocery store and provide check cashing and remittance services to non-members *within* their fields of membership. We are now seeing increased remittance volumes sent by US credit unions and innovations in the market. For example, the largest credit union in South Carolina has decided to offer *free* remittances to any new members. Many other credit unions are incorporating remittances into larger service offerings including tax preparation support and first time mortgages for new Americans.

A frequently overlooked area is that some U.S. credit unions are also providing banking and settlement services for smaller money transmitters that have had their accounts closed at large commercial banks. If Congress were to restore credit union's ability to actively serve small businesses and add underserved areas to their fields of membership, as found in the Credit Union Regulatory Improvements Act, H.R. 1537. I believe that we would see further innovation and service to immigrant communities.

2. Reducing the Cost of Remittances

In nearly every developing country where credit unions exist, the majority of the credit union offices are located in rural areas. In addition, like with U.S. credit unions, foreign credit unions are generally organized in a highly cohesive network structure. These characteristics along with sheer number of locations and their experience in managing liquidity make credit unions an ideal partner for many money transmitter organizations (MTOs).

The two clearest avenues to further reduce the cost of remittances among credit unions are: 1) eliminating exclusivity requirements by MTOs to facilitate competition; and 2) facilitating access to the payments systems and card networks for regulated non-banks, including microfinance institutions and credit unions.

Exclusivity

An outcome of the Group of Eight's (G8) Sea Island Summit in 2004, was that the Ministers of Finance agreed to an action plan to facilitate remittances. WOCCU has worked extensively with the World Bank and the Bank for International Settlements on the development of the *General Principles for International Remittances* which flowed out of the Sea Island Summit. CUNA's voluntary principles for international remittances are included in this guidance from the World Bank.

Within these *General Principles for International Remittances* is the call for competitive market conditions. We believe there is a need to eliminate the pervasive use of one-way exclusivity contracts in the remittance market. Many of the firms utilizing such contracts are US-based companies. If this competition-limiting practice were eliminated we believe prices would again decrease for remittances. We find this practice particularly untenable in countries where government offices are forced to enter such arrangements.

Access to Payment System

In the majority of developing countries, including large remittance markets such as Mexico, Colombia, Ecuador, Kenya, Brazil, Guatemala and Dominican Republic, credit unions must rely on local banks (which are increasingly also competitors) to clear and settle their remittance flows with an MTO. As a result, remittances processed through credit unions have higher cost structures than they otherwise could or should have and put receiving credit unions at risk of default from MTO as credit union branches must provide payment to receivers before being paid by the MTO. Having to wait longer for settlement of funds increases the risk to distributing credit unions. In addition credit unions are often shut out from direct membership in debit and credit card networks as a result of their non-bank status. This has a severe impact as new technologies are adapted for remittances but credit unions and microfinance institutions are shut out from their adoption.

We reject the notion that equitable access to a payment system or debit/credit card networks is the possession of a "banking" license especially where credit unions are supervised by the *same* government agency supervising banks and at times must adhere to stricter prudential standards.

We frequently hear the line of argument against such direct access being that credit unions and microfinance institutions are too small to be able to afford access and too unsophisticated to be granted access without creating "systemic" risk. The irony is that credit unions are allowed to accept public deposits but hampered in their ability to offer efficient and secure payments for their members. We have found that commercial banks often restrict such access to limit competition. Alternatively, we have seen governments (e.g., Mexico) determine they will allow payment system access for credit unions only through a government development bank, which also directly competes with credit unions in the provision of retail financial services.

It was the Monetary Control Act that finally opened up the payment system for US credit unions in the early 1980s and allowed them to actively enter the payment system. This ultimately benefited all consumers through greater competition and choice. For the benefit of consumers abroad, the multilateral development banks, Treasury and USAID should work with foreign governments to allow greater payment systems and debit/credit card access for regulated microfinance institutions and credit unions.

International ACH

In testimony to the Senate Banking Committee in early 2002 and again late 2003 CUNA and WOCCU encouraged the development of a connection between the US and Mexican ACH systems which would allow credit unions on both sides of the transaction to directly access the payment system. To help support the start-up of what has become the Directo-a-Mexico program, WOCCU provided the Federal Reserve System with the names and details of the most promising U.S. credit unions for inclusion in the system. One of those credit unions, Latino Community Credit Union, is now the second largest originator of remittance transfers among all financial institutions in the Directo-a-Mexico service.

Much to our dismay, Mexican credit unions still cannot directly access this payment service. This makes the service less accessible to working individuals in rural Mexico where most of the migration stems from. While potentially detrimental to our own program, we supported the development of this service because of its long term potential to help a segment of the remittance market. However, as a global organization, WOCCU cannot support or promote the Directo-a-Mexico program until credit unions in Mexico are given the same rights of direct access to their national payment system as American credit unions enjoy.

3. Role of Multilateral Development Banks and USAID

In some developing countries (e.g., Brazil, Dominican Republic) we still experience regulatory ambiguity and/or a clear prohibition of credit unions from being able to offer remittance distribution services. We believe that the Sea Island Summit action plan is direct in its intention to ensure that credit unions and other microfinance institutions deepen remittance activities. Clear positions and actions through the multi-lateral development banks, Treasury and USAID encouraging foreign governments to allow credit unions to offer remittance services would help significantly in this regard.

As discussed above, credit unions on both the sending and receiving sides of the transfers are offering the product for similar reasons. The service enables credit unions to leverage their existing infrastructures to offer money transfers and thereby develop new relationships. Much like how checking accounts are offered at or below costs to build relationships for financial institutions, credit unions are able to offer remittance services as a relationship product with the expectation that income will be generated from such members down the road. This positioning of the product and the non-profit status of credit unions, enable them to undercut prices of the for-profit money transfer companies and generate revenue on the relationships that can be built. In contrast, the major money transfer companies are publicly traded firms that must maximize their profits solely from the fees.

Lastly, while remittances to Latin America and the Caribbean have justifiably received significant attention, largely due to the good work of the Inter-American Development Bank, the other multilateral development banks should be encouraged to study and promote efficient remittances and the direction for USAID in this area should not be regionally specific. While many remittance markets in Latin America have experienced rapid reduction in cost as a result of competition, much of Africa and Asia still resembles practices in Latin America a decade ago.

Conclusion

Credit unions throughout the country are leading the way in ensuring that immigrants have access to affordable remittance and financial services. We want to work with Congress and the Administration to further these efforts through the development of more efficient, consumer-oriented payment mechanisms that would encourage financial institutions to reach out to this market. Such efforts should also ensure that the Congress restores credit unions' ability to provide small business loans to new Americans and allows for greater service to undersevered communities.

Thank you for holding this very important hearing. We would welcome the opportunity to continue meeting with the Committee to explore ways to improve the delivery of international remittances.